Consolidated Financial Statements of

UCORE RARE METALS INC.

Years ended December 31, 2012 and 2011

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Ucore Rare Metals Inc.

We have audited the accompanying consolidated financial statements of Ucore Rare Metals Inc., which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011, the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Ucore Rare Metals Inc. as at December 31, 2012 and December 31, 2011, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards**.**

Emphasis of Matter

Without modifying our opinion, we draw attention to note 2 in the consolidated financial statements which indicates that Ucore Rare Metals Inc. experienced losses in 2012 and 2011, has no significant sources of revenue and does not have sufficient capital to fund its operations beyond December 31, 2013. These conditions, along with other matters set forth in note 2 in the consolidated financial statements, indicate the existence of material uncertainties that cast significant doubt about Ucore Rare Metals Inc's ability to continue as a going concern.

KPMG LLP

Chartered Accountants
April 29, 2013
Halifax, Canada

UCORE RARE METALS INC.

Consolidated Statements of Financial Position
Expressed in Canadian dollars

	December 31, 2012	December 31, 2011
	$	$
ASSETS		
Current assets		
Cash	302,120	268,265
Short-term deposits (note 7)	1,838,850	7,285,967
Marketable securities	3,750	8,500
Trade and other receivables (note 10)	376,878	216,160
Prepaid expenses	139,009	291,742
	2,660,607	8,070,634
Equipment (note 8)	163,773	58,021
Resource properties and related deferred costs (note 9)	24,047,682	23,570,263
	26,872,062	31,698,918
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	588,785	776,333
	588,785	776,333
Shareholders' equity		
Share capital (note 12)	38,311,650	37,510,977
Contributed surplus (note 12)	5,875,314	4,495,138
Warrants (note 12)	3,062,679	2,740,011
Accumulated other comprehensive loss	(527,820)	(176,666)
Deficit	(20,438,546)	(13,646,875)
	26,283,277	30,922,585
	26,872,062	31,698,918

Going Concern (note 2)
Subsequent events (note 14)

The accompanying notes form an integral part of these consolidated financial statements.

Approved on behalf of the Board of Directors

(s) Jim McKenzie
Jim McKenzie, Director

(s) Jos De Smedt
Jos De Smedt, Director

UCORE RARE METALS INC.

Consolidated Statements of Comprehensive Loss
Expressed in Canadian dollars
for the years ended December 31

	2012	2011
	$	$
EXPENSES		
Amortisation	27,510	24,785
Investor relations and marketing	236,145	349,878
Office and premises	258,047	255,173
Professional services	735,594	478,983
Salaries and consultants	1,268,894	957,865
Securities and regulatory	99,454	113,046
Share-based payments	809,336	650,947
Travel	313,566	318,443
Impairment of marketable securities	-	37,250
Write-down of resource properties (note 9)	2,000,000	431,193
	5,748,546	3,617,563
OTHER INCOME (LOSS)		
Interest income	42,884	79,604
Foreign exchange	22,768	2,806
	65,652	82,410
LOSS BEFORE INCOME TAXES	(5,682,894)	(3,535,153)
INCOME TAXES RECOVERABLE (note 11)	(82,073)	-
NET LOSS	(5,600,821)	(3,535,153)
Net Loss per share - basic and diluted	(0.04)	(0.02)
Weighted average number of basic and diluted common shares outstanding	151,811,117	148,499,138
COMPREHENSIVE LOSS:		
Net loss for the periods	(5,600,821)	(3,535,153)
Foreign currency translation difference arising on translation of foreign subsidiaries	(346,404)	236,980
Unrealised gain (loss) on available-for-sale securities	(4,750)	(22,000)
	(5,951,975)	(3,320,173)

The accompanying notes form an integral part of these consolidated financial statements.

UCORE RARE METALS INC.

Consolidated Statement of Changes in Equity

Expressed in Canadian dollars

	Number of Shares	Share Capital	Contributed Surplus	Warrants	Accumulated Other Comprehensive Income (Loss)	Deficit	Total Equity
Balance at January 1, 2011	136,653,253	$ 31,102,550	$ 3,818,574	$ 4,884,270	$ (428,896)	$ (10,111,722)	$ 29,264,776
Net Loss						(3,535,153)	(3,535,153)
Unrealised loss on marketable securities					(22,000)		(22,000)
Impairment of marketable securities					37,250		37,250
Foreign currency translation adjustment					236,980		236,980
Share-based payments (note 12)			714,314				714,314
Shares issued on exercise of warrants	14,636,499	4,186,418					4,186,418
Fair value of warrants exercised		2,144,259		(2,144,259)			-
Shares issued on exercise of options	75,000	40,000					40,000
Fair value of options exercised		37,750	(37,750)				-
Balance at December 31, 2011	151,364,752	$ 37,510,977	$ 4,495,138	$ 2,740,011	$ (176,666)	$ (13,646,875)	$ 30,922,585
Balance at January 1, 2012	151,364,752	$ 37,510,977	$ 4,495,138	$ 2,740,011	$ (176,666)	$ (13,646,875)	$ 30,922,585
Net Loss						(5,600,821)	(5,600,821)
Impairment of marketable securities					(4,750)		(4,750)
Foreign currency translation adjustment					(346,404)		(346,404)
Share-based payments (note 12)			926,332				926,332
Shares issued on exercise of warrants	1,243,650	465,908					465,908
Fair value of warrants exercised		330,015		(330,015)			-
Shares issued on exercise of options	25,000	2,500					2,500
Fair value of options exercised		2,250	(2,250)				-
Modification of warrants				1,190,850		(1,190,850)	
Expiry of warrants			538,167	(538,167)			
Tax effect of expired warrants			(82,073)				(82,073)
Balance at December 31, 2012	152,633,402	$ 38,311,650	$ 5,875,314	$ 3,062,679	$ (527,820)	$ (20,438,546)	$ 26,283,277

The accompanying notes form an integral part of these consolidated financial statements.

UCORE RARE METALS INC.

Condensed Consolidated Statements of Cash Flows

Expressed in Canadian dollars

	2012	2011
	$	$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	(5,600,821)	(3,535,153)
Adjustments for items not involving cash:		
Amortization	27,510	24,785
Share-based payments	809,336	650,947
Deferred income tax recovery	(82,073)	
Impairment of marketable securities	-	37,250
Write-down of resource properties	2,000,000	431,193
	(2,846,048)	(2,390,978)
Change in non-cash operating working capital:		
(Increase) in trade and other receivables	(160,718)	(151,460)
(Increase)/decrease in prepaid expenses	152,733	(266,051)
Increase/(decrease) in accounts payable and accruals	15,802	(6,797)
	(2,838,231)	(2,815,286)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of common shares on exercise of options and warrants	468,408	4,226,418
	468,408	4,226,418
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(133,262)	(16,533)
Resource property interests and options	(2,910,176)	(5,452,948)
Purchase of short-term deposits	(60,000)	(10,000,000)
Proceeds from redemption of short-term deposits	5,507,116	5,020,396
	2,403,678	(10,449,085)
INCREASE (DECREASE) IN CASH	33,855	(9,037,953)
CASH, beginning of year	268,265	9,306,218
CASH, end of year	302,120	268,265
Non-cash financing and investment activities:		
Accounts payable and accrued liabilties related to resource properties and related deferred costs	(203,350)	414,115

The accompanying notes form an integral part of these consolidated financial statements.

1. Nature of operations:

Ucore Rare Metals Inc. ("Ucore" or the "Company") is a Corporation domiciled in Canada. The address of the Company's head office is 210 Waterfront Drive, Suite 106, Halifax N.S., B4A 0H3. The Company is engaged in the exploration for rare earth elements.

2. Going Concern

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards applicable to a going concern, which assumes the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management is aware, in making its assessment, of material uncertainties related to events or conditions that cast significant doubt upon the entity's ability to continue as a going concern, as the Company has no sources of revenue, and has experienced significant losses and negative cash flows from operations in 2012 and 2011.

The recoverability of amounts shown for exploration and evaluation assets and the Company's continued viability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete their development, and future profitable production or proceeds from the disposition of its interests. The ability to raise capital is outside of the Company's control. If the Company does not raise sufficient capital, it may not be able to continue as a going concern and therefore realize its assets and discharge its liabilities in the normal course of business. The Company has filed a short-form prospectus, as discussed in note 14, which if closed, in management's view, will enable the Company to meet its resource property obligations, fund its administration costs, and fund its planned exploration programs beyond December 31, 2013.

The ability of the Company to continue as a going concern and to realize the carrying value of its assets and discharge its liabilities when due is dependent on the successful completion of this, and/or additional financing, which management believes will mitigate the adverse conditions and events which raise doubt about the Company's ability to continue as a going concern. There is no certainty as to how much funding will be raised under the short-form prospectus or that this and other strategies will be sufficient to permit the Company to continue beyond December, 2013.

These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used.

3. Basis of presentation:

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The date the Board of Directors approved the consolidated financial statements is April 29, 2013.

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for available for sale financial assets which are measured at cost.

Functional Currency

Items included in the financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the functional and presentation currency of Ucore Rare Metals Inc.

Use of estimates and judgments

The preparation of financial statements requires management to make estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. These estimates are based on historical experience, current and future economic conditions, and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The determination of estimates requires the exercise of judgments based on various assumptions and other factors such as historical experience and current and expected economic conditions. Actual results could differ from those estimates.

Critical accounting estimates:

Estimate of recovery for non-financial assets

Events or changes in circumstances may give rise to significant impairment charges or reversals of impairment in a particular year. In accordance with the Company's accounting policy, each non-financial asset unit is evaluated every reporting period to determine whether there are any indications of impairment. If any such indication exists, a formal estimate of recoverable amount is generated and an impairment loss is recognized to the extent that carrying amount exceeds recoverable amount. The recoverable amount of an asset or cash generating unit is measured at the higher of fair value less costs to sell and value in use.

3. Basis of presentation (continued):

Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties, and is generally determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset and its eventual disposal. Value in use is also generally determined as the present value of the estimated future cash flows, but only those expected to arise from the continued use of the asset in its present form and its eventual disposal. Present values are determined using a risk-adjusted pre-tax discount rate appropriate to the risks inherent in the asset.

Share-based payments

Equity-settled share-based payments issued to employees are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. Fair value is measured using the Black-Scholes pricing model and requires the exercise of judgment in relation to variables such as expected volatilities and expected lives based on information available at the time the fair value is measured.

Taxation

The Company's accounting policy for taxation requires management's judgment in assessing whether deferred tax assets and certain deferred tax liabilities are recognized on the balance sheet. Deferred tax assets, including those arising from tax loss carry-forwards, capital losses, and temporary differences are recognized only where it is considered probable that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, mineral prices, reserves, operating costs, restoration and rehabilitation costs, capital expenditure, dividends, and other capital management transactions.

Judgments are also required about the application of income tax legislation. These judgments and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognized on the balance sheet and the amount of other tax losses and temporary differences not yet recognized. In such circumstances, some or all of the carrying amount of recognized deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the income statement.

4. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements unless otherwise indicated.

(a) Consolidation:

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Ucore Resources LP (NS) Inc., Rare Earth One LLC (AK), Mineral Solutions LLC (AK), Landmark Alaska Limited Partnership (AK), Landmark Minerals Inc., 5621 N.W.T. Ltd., Landmark Minerals US., and Ucore Rare Metals (US) Inc. (AK).

(i) Subsidiaries

Subsidiaries are those entities over which the Company has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a Company controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the parent company.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company and cease to be consolidated from the date on which control is transferred out of the Company. A change in the ownership interest of a subsidiary that does not result in a loss of control is accounted for as an equity transaction.

(ii) Transactions eliminated on consolidation

Inter-company balances and transactions, and any unrealised income and expenses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements.

(b) Resource properties and related deferred costs:

Pre-exploration expenditures are expensed as incurred. All direct costs related to the acquisition of resource property interests are capitalised by property. Exploration and evaluation costs are capitalised.

Resource properties are initially measured at cost and classified as tangible assets. These assets include expenditures on acquisition of rights to explore, studies, exploratory drilling, trenching, sampling, metallurgical studies, and other direct costs related to exploration or evaluation of a project. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to operational activities in a particular area of interest.

4. Significant accounting policies (continued):

Where a project is determined to be technically and commercially feasible and a decision has been made to proceed with development with respect to a particular area of interest, the relevant resource property asset is tested for impairment and the balance is reclassified as a resource property in property, plant and equipment.

An impairment review of resource properties is performed when there are indicators the carrying amount of the assets may exceed their recoverable amounts. To the extent this occurs, the excess is fully provided against the carrying amount in the financial year in which this is determined. Resource property assets are reassessed on a regular basis and these costs are carried forward provided at least one of the conditions below is met:

- Costs are expected to be recouped in full through successful development and exploration of the area of interest, or alternatively, by its sale; or

- Exploration and evaluation activities in the area of interest have not yet reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing, or planned for the future.

(c) Foreign currency translation:

i. Foreign currency transactions

In preparing the financial statements of each individual entity, transactions in currencies other than the entity's functional currency ("foreign currencies") are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised in the cumulative translation account and reclassified to profit or loss on repayment of the monetary items.

ii. Foreign operations

The results and financial position of all subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate on the date of the statement of financial position;
- Income and expenses for each income statement presented are translated at average exchange rates for the period;

4. Significant accounting policies (continued):

- All resulting exchange differences are recognised in accumulated other comprehensive loss.

On the loss of control of a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are recognised in the income statement as part of the gain or loss on sale.

(d) Financial instruments:

(i) Financial assets

The Company initially recognises loans and receivables and deposits on the date that they originate. All other financial assets are recognised initially on the trade date at which the Company becomes party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flow from the asset expire, or the rights to receive the contractual cash flows on the financial asset are transferred.

The Company has the following non-derivative financial assets: loans and receivables and available for sale financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise cash, short term deposits, and accounts receivable.

Available for sale financial assets

Available for sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. The Company's investments in marketable securities are classified as available for sale financial assets.

4. Significant accounting policies (continued):

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign exchange differences on available for sale equity instruments, are recognised in other comprehensive income and presented within equity. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Fair value is determined based on current bid prices for all quoted investments.

(ii) Financial liabilities

The Company initially recognises other financial liabilities on the trade date at which the Company becomes party to the contractual provisions of the instrument.
The Company derecognises financial liabilities when its contractual obligations are discharged, cancelled, or expire.

The Company has the following non-derivative other financial liabilities: accounts payable and accrued liabilities.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

(iii) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognised as a deduction from equity, net of any tax effects.

(e) Impairment

(i) Financial assets (including receivables)

Financial assets, other than those at fair value through profit or loss, are assessed for objective evidence of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

4. Significant accounting policies (continued):

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructure of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for available for sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against accounts receivable. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amount of the Company's non-financial assets, excluding resource properties, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indications exist, the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets which generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or groups of assets (the "cash-generating-unit" or "CGU").

The Company's assets do not generate separate cash inflows. If there is an indication that a company asset may be impaired, then the recoverable amount is determined for the CGU to which the asset belongs.

An impairment loss is recognised directly against the carrying amount of the asset whenever the carrying amount of an asset, or its CGU, exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGU's are allocated first to the goodwill and then to the carrying amounts of the assets in the unit (group of units) on a pro-rata basis.

4. Significant accounting policies (continued):

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

Resource assets are tested for impairment when development of the property commences or whenever facts and circumstances indicate impairment. An impairment loss is recognised for the amount by which the resource assets' carrying amount exceeds their recoverable amount. Where the assets are not associated with a specific cash generating unit, the recoverable amount is assessed using fair value less costs to sell for the specific assets.

(f) Income taxes:

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable on respect of previous years.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

4. Significant accounting policies (continued):

Deferred income tax assets and deferred income tax liabilities of the same taxable entity are offset when they relate to taxes levied by the same taxation authority and the entity has a legally enforceable right to set off current tax assets against current tax liabilities. The principal temporary differences arise from amortisation and depreciation on property, plant and equipment, tax losses carried forward, and fair value adjustments on assets acquired in business combinations.

(g) Share-based payments:

The Company has a share-based compensation plan which is described in note 12. Awards of options to employees and others providing similar services under this plan are expensed based on the estimated fair value of the options at the grant date, with a corresponding credit to share-based compensation in shareholders' equity. Fair value is measured using the Black-Scholes pricing model. If the options are subject to a vesting period, the estimated fair value is recognized over this period, based on the Company's estimate of the shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Equity-settled share-based payment transactions with parties other than employees and those providing similar services are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

Consideration paid by employees on the exercise of stock options is credited to share capital together with the amounts originally recorded as share-based compensation related to the exercised options.

(h) Loss per share:

The calculation of basic loss per common share is based on net loss divided by the weighted average number of common shares outstanding during the period. The Company follows the treasury stock method of calculating diluted per share amounts. Since the Company has a net loss for all years being presented, the effect of the exercise of options and warrants has not been included in the calculation as it would be anti-dilutive.

4. Significant accounting policies (continued):

(i) Equipment:

Equipment is recorded at cost less accumulated amortisation and impairment losses. The Company provides for amortisation using the declining balance and straight line methods at rates designed to amortise the cost of the equipment over their estimated useful lives. The annual amortisation rates are as follows:

Asset	Basis	Rate
Office equipment	Declining balance	30%
Exploration equipment	Declining balance	30%
Leasehold improvements	Straight line	Term of lease

(j) Flow-through shares:

The Company has financed portions of its exploration activities through the issuance of flow-through shares. The income tax attributes of the related exploration expenditures are renounced to investors in accordance with income tax legislation. The proceeds received on the issue of flow-through shares are allocated between share capital and the obligation to deliver the tax deduction to investors. This allocation is based on the difference between the quoted price of the Company's non-flow through shares and the amount the investor pays for the flow-through shares. The premium liability is removed pro-rata based on the actual amount of flow-through eligible expenditures incurred during the reporting period. The reduction of the premium is recognized through profit and loss as other income.

(k) Warrants

From time to time the Company issues warrants in conjunction with share capital. Proceeds are allocated between share capital and warrants based on the relative fair value of each instrument. The fair value of the warrants is estimated using an appropriate option pricing model, as outlined in note 12.

(l) Future accounting policies:

IFRS 9 Financial Instruments ("IFRS 9") was issued by the IASB on November 12, 2009, addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 29 for debt instruments with a mixed measurement model having only two categories: amortised cost and fair value through profit and loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognised at fair value through profit and loss or at fair value through other comprehensive income. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Company has not early adopted IFRS 9 and is currently evaluating the impact on its financial statements.

4. Significant accounting policies (continued):

IAS 1, Presentation of Financial Statements was amended to revise the presentation of other comprehensive income. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012. The Company has not early adopted the amendments to IAS 1 and is currently evaluating the impact on its financial statements.

IFRS 10, Consolidated Financial Statements was issued by the IASB on May 12, 2011 and replaces the current IAS 27, Consolidated and Separate Financial Statements. The new standard identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. This new standard is effective for fiscal years beginning January 1, 2013. The Company is currently evaluating the impact of this new standard.

IFRS 11, Joint Arrangements was issued by the IASB on May 12, 2011 and replaces the current IAS 31, Interests in Joint Ventures. The new standard classifies joint arrangements as either joint ventures or joint operations. Interests in joint ventures will be accounted for using equity accounting, eliminating the proportionate consolidation option currently available under IAS 31. This new standard is effective for fiscal years beginning January 1, 2013. The Company is currently evaluating the impact of this new standard.

The IASB issued IFRS 12, Disclosure of Interest in Other Entities on May 12, 2011. This standard establishes disclosure requirements for interests in other entities, including joint arrangements, associates, and special purpose entities and other off balance sheet entities. This new standard is effective for fiscal years beginning January 1, 2013. The Company is currently evaluating the impact of this standard.

IFRS 13, Fair Value Measurement was issued by the IASB on May 12, 2011. This is a comprehensive standard for fair value measurement and disclosure of fair value measurements across various IFRS standards. IFRS 13 provides a definition of fair value, sets out a single IFRS framework for measuring fair value, and outlines requirements for disclosure of fair value measurements. The new standard is effective for fiscal years beginning January 1, 2013. The Company is currently evaluating the impact of this new standard.

IAS 19, Employee Benefits was issued by the IASB and introduced changes to the accounting for defined benefit plans and other employee benefits. The amendments to other employee benefits include modification of the accounting and termination benefits and classification of other employee benefits. The Company does not anticipate the application of IAS 19 to have a material impact on its consolidated financial statements.

5. Capital Management:

The Company's capital consists of shareholders' equity of $26,283,277 (2011: $30,922,585). The Company's objective when managing capital is to maintain adequate levels of funding to support the acquisition and exploration of resource properties and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financings. Future financings are dependent on market conditions, and there can be no assurance the Company will be able to raise funds in the future.

The Company invests all capital that is surplus to its immediate operational needs in short-term, highly-liquid, high-grade financial instruments.

There were no changes to the Company's approach to capital management during the period. The Company is not subject to externally imposed capital requirements.

6. Financial instruments:

Fair value

Marketable securities are measured at fair value on a recurring basis using level 1 inputs. The fair value of the financial assets and liabilities using level 2 and 3 inputs was nil. During the years ended December 31, 2012 and 2011, there were no transfers between level 1, level 2 and level 3 classified assets and liabilities. The following items shown in the consolidated statements of financial position as at December 31, 2012 and 2011 are measured at fair value on a recurring basis using level 1 inputs.

	Dec 31, 2012	Dec 31, 2011
Marketable Securities	$ 3,750	$ 8,500
	$ 3,750	$ 8.500

Due to their short-term nature, the carrying value of cash, short term deposits, accounts receivable, and accounts payable and accrued liabilities approximates their fair value.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with the financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company's accounts payable and accrued liabilities are due within six months. Their contractual cash flow is equal to their carrying value. Short-term deposits are held in interest bearing instruments that can be converted to cash without penalty at any time and are recorded at fair value.

6. Financial instruments (continued):

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as foreign currency rates and interest rates.

Foreign currency risk

A significant portion of the Company's transactions occur in United States dollars and accordingly, the related financial assets are subject to fluctuations in the respective exchange rates. To limit exposure to this risk, cash and short term investments are primarily held with high quality financial institutions in Canada.

The Company's exposure to US dollar currency risk was as follows:

		2012		2011
Cash	$	96,784	$	45,626
Trade and other payables		(210,521)		(140,000)
	$	(113,737)	$	(94,374)

A 10% weakening in the exchange rate would result in a foreign exchange loss of $11,374 (2011 - $9,437). (A 10% strengthening would have an equal but opposite impact).

Interest rate risk

The Company has cash and short-term deposits. The Company's short term funds are held primarily in guaranteed investment certificates, the rates of which are fixed for periods ranging up to one year. Therefore, a change in interest rates at the reporting date would not affect interest income.

7. Short-term deposits:

Short-term deposits consist of guaranteed investment certificates, the rates of which are fixed for periods ranging up to one year. The deposits can be redeemed without penalty at any time.

8. Equipment:

	Office Equipment	Exploration Equipment	Leasehold Improvements	Total
Cost				
Balance, January 1, 2011	102,283	101,152	-	203,435
Additions	16,533	-	-	16,533
Balance December 31, 2011	118,816	101,152	-	219,968
Additions	34,256	-	99,006	133,262
Balance, December 31, 2012	153,072	101,152	99,006	353,230
Accumulated Amortisation				
Balance, January 1, 2011	62,819	74,342	-	137,161
Depreciation	16,757	8,029	-	24,786
Balance, December 31, 2011	79,576	82,371	-	161,947
Depreciation	15,420	5,640	6,450	27,510
Balance, December 31, 2012	94,996	88,011	6,450	189,457
Net Book Value				
Balance, December 31, 2011	39,240	18,781	-	58,021
Balance, December 31, 2012	58,076	13,141	92,556	163,773

9. Resource properties and related exploration costs:

The Company's interests in resource properties consist of:

	December 31, 2011	Acquisition Costs	Deferred Exploration Costs	Impairment	Movement in exchange rates	December 31, 2012
Bokan Mountain, Alaska	$ 20,679,003	$ 150,274	$ 2,458,618	$ -	$ (346,404)	$ 22,941,491
Lost Pond, Newfoundland	2,800,000	-	-	(2,000,000)	-	800,000
Ray Mountains, Alaska	91,260	9,364	205,567	-	-	306,191
	23,570,263	159,638	2,664,185	(2,000,000)	(346,404)	24,047,682

	December 31, 2010	Acquisition Costs	Deferred Exploration Costs	Impairment	Movement in exchange rates	December 31, 2011
Bokan Mountain, Alaska	$ 14,602,853	$ 229,863	$ 5,666,065	$ -	$ 180,222	$ 20,679,003
Lost Pond, Newfoundland	2,800,000	-	-	-	-	2,800,000
Ray Mountains, Alaska	-	52,413	38,847	-	-	91,260
Canada - Other	413,193	-	-	(413,193)	-	-
	17,816,046	282,276	5,704,912	(413,193)	180,222	23,570,263

9. Resource properties and related exploration costs (continued):

Bokan Mountain, Alaska

The Company holds the right to acquire up to a 100% interest in the Bokan Mountain uranium and rare earth element property, subject to certain royalties.

The Company holds a 100% interest in five separate option agreements to acquire a 100% interest in a parcel of unpatented mineral claims from underlying owners and staked a 100% interest in an additional parcel of prospective ground. The option agreements provide for the Company to acquire a 100% interest in the optioned claims in exchange for total remaining payments of US$90,000. The five vendors will retain Net Smelter Royalties ("NSR") ranging from 2% to 4% on their specific claims. The Company has the right to purchase between 33% and 100% of the NSR for cash payments of US$500,000 to US$1,000,000 per vendor.

Lost Pond, Newfoundland

The Company holds a 100% interest in the Lost Pond uranium and rare earth element property, located east of Stephenville, Newfoundland. The Company's 100% interest is subject to a 2% NSR (1% on contiguous claims optioned from third parties), 50% of which can be purchased by the Company for cash payments of $500,000 to $1,000,000 to each of three different vendors.

The Company had entered into a Letter Agreement with Kirrin Resources Inc. (“Kirrin”) pursuant to which Kirrin had the ability to earn up to a 50% interest in the Lost Pond property by completing work commitments of $2,045,000 on the property by December 31, 2014 and by issuing 300,000 Kirrin common shares (split adjusted) to the Company.

A minimum of $1,200,000 of this work was required to be completed by December 31, 2012. Kirrin did not reach this level of expenditure by December 31, 2012 and as a result, the Letter Agreement was terminated.

As a result of the termination of the Letter Agreement, management undertook an impairment review with respect to the Lost Pond property.

The recoverable amount was determined based on the fair value of the property less costs to sell. The fair value was based on the amount of a recent third party offer for a 70% interest in the property, which represented the best information available. Based on this, the recoverable amount of the asset was $800,000 resulting in an impairment of $2,000,000. The assumptions used to estimate the recoverable value are subject to further change which could lead to further write-downs or the reversal of the previously recognised impairment.

Canada - Other

Sandybeach Lake, Nunavut

The Company holds a 100% interest in the Sandybeach Lake uranium property located northeast of the northern extent of Neultin Lake in Nunavut.

9. Resource properties and related exploration costs (continued):

Newfoundland and Labrador

(i) Central Mineral Belt/Makkovik River

During 2006, the Company acquired a 100% interest in a number of claims in the Makkovik River area of the Central Mineral Belt located in Labrador. Subsequently, the Company entered into a letter agreement with Bayswater Uranium Corporation ("Bayswater") to provide for, on a 50/50 basis, the joint ownership and exploration of their mutual uranium properties in the Central Mineral Belt, now referred to as the Makkovik River Project. During 2011, Bayswater notified the Company of its intention to terminate this agreement. As a result, the Company undertook an impairment review with respect to this property and the carrying amount of this property was written down to nil. The resulting impairment charge totalled $431,193.

(ii) Notakwanon River, Labrador

The Company owns a 100% interest in the Notakwanon River property. The vendor retains 2% NSR, 50% of which may be purchased by the Company for $500,000. The carrying value of this property is nominal.

10. Related party transactions:

Compensation of key management personnel:

	2012	2011
Director's fees	$ 53,250	$ 42,000
Share-based payments to directors	273,727	154,833
Key management short-term benefits	774,480	434,138
Share-based payments to key management	251,787	196,972
	$ 1,353,244	$ 827,943

Key management short-term benefits include all salary, bonuses, and health/dental benefits paid to officers during the year.

As at December 31, 2012, the Company has recorded an advance, for corporate expenses, to an officer of the Company in the amount of $20,833 (December 31, 2011 - $13,095), which is non-interest bearing with no fixed terms of repayment. This amount is included in trade and other receivables.

During the year ending December 31, 2012, the Company paid $59,875 (2011 - $81,750) in consulting fees to directors of the Company. Additionally, travel expenditures in the amount of $4,274 (2011 - $9,871) were reimbursed to directors of the Company.

10. Related party transactions (continued):

All related party transactions were in the normal course of operations and were valued at the exchange amount agreed to between the parties.

11. Deferred Income taxes:

Future income tax recovery differs from the amount that would be computed by applying the federal and provincial statutory income tax rate of 29% (2011 - 30.5%) to net loss before income taxes. The reasons for the difference are as follows:

	2012	2011
Computed tax recovery	$ (1,648,039)	$ (1,078,000)
Stock-based compensation, not deductible for tax purposes	234,707	199,000
Impact of reduction in future statutory tax rates	12,853	42,000
Benefit of deductible temporary difference and unused tax losses not recognized	1,320,199	833,000
Other temporary and permanent differences	(1,793)	4,000
	$ (82,073)	$ -

The following temporary differences and non-capital losses have not been recognised in the consolidated financial statements:

	Dec 31, 2012	Dec 31, 2011
Non-capital losses carried forward	$ 11,779,000	$ 8,870,000
Share issue costs	604,000	948,000
Equipment	189,000	162,000
Resource properties	1,075,000	694,000
Marketable securities	42,000	37,000
	$ 13,689,000	$ 10,771,000

11. Deferred Income taxes (continued):

The Company has accumulated losses for Canadian tax purposes of approximately $11,779,000, which may be carried forward and used to reduce taxable income in future years. These losses expire as follows:

2013	$ 91,000
2014	151,000
2025	471,000
2026	851,000
2027	1,561,000
2028	1,119,000
2029	641,000
2030	1,216,000
2031	2,778,000
2032	2,900,000

12. Share capital:

Authorized:
- Unlimited number of common voting shares
- Unlimited number of first preferred non-voting shares issuable in series
- Unlimited number of second preferred non-voting shares issuable in series

(a) Stock options

The Company has adopted an incentive stock option plan whereby options may be granted from time to time to directors, officers, employees, and consultants of the Company ("the Plan"). Pursuant to the terms of the Plan, up to 10% of the issued and outstanding common shares have been reserved for issuance as options, with no one individual being granted more than 5% of the issued and outstanding common shares. Options granted under the Plan generally vest over periods between 18 months and 2 ½ years. Stock options expire up to five years after the date of grant.

Stock options may also be granted to agents in certain public and private placements. Options granted to agents vest immediately and generally expire two years after the date of grant.

12. Share capital (continued):

For the year ended December 31, 2012, the Company recognized share-based payments of $926,332 (2011 - $714,314) for options granted to directors, employees and non-employees of which $116,996 (2011 - $63,367) was capitalized in resource properties and related deferred costs and $809,336 (2011 - $650,947) was charged to earnings.

The fair value of options granted during the year has been estimated using the Black Scholes option pricing model. The weighted average assumptions used in the pricing model for options granted during the year are as provided below:

	2012	2011
Risk-free interest rate	1.33%	1.29%
Expected life	3 years	3.5 years
Expected volatility	102%	150%
Expected dividends	nil	nil
Weighted average grant date fair value	$0.23	$0.51
Rate of forfeiture	10%	10%

Expected volatility is estimated by considering historic average share price volatility.

A summary of changes in stock options during the year is as follows:

	2012			2011		
	Number of options		Weighted average exercise price	Number of options		Weighted average exercise price
Balance, beginning of year	6,365,320	$	0.54	5,269,920	$	0.61
Granted	700,000		0.36	2,370,000		0.58
Exercised	(25,000)		0.10	(75,000)		0.53
Forfeited	(250,320)		1.14	(1,199,600)		0.88
Balance, end of year	6,790,000	$	0.51	6,365,320	$	0.54

12. Share capital (continued):

The weighted average share price on the date on which options were exercised during 2012 was $0.51 (2011: $0.95).

The following table summarizes information about the stock options outstanding and exercisable at December 31, 2012:

Exercise price per share	Number of outstanding options	Expiry date	Number of exercisable options
$0.10	400,000	April 24, 2014	400,000
0.21	150,000	June 10, 2014	150,000
0.28	250,000	May 14, 2017	83,333
0.35	250,000	August 6, 2014	250,000
0.38	200,000	February 2, 2015	200,000
0.40	300,000	August 19, 2015	300,000
0.40	150,000	September 14, 2017	-
0.41	300,000	March 30, 2017	100,000
0.45	150,000	July 2, 2013	150,000
0.47	850,000	March 31, 2013	850,000
0.49	20,000	December 1, 2015	20,000
0.55	1,920,000	November 7, 2016	1,280,000
0.56	150,000	November 17, 2016	100,000
0.67	1,150,000	September 29, 2015	1,150,000
0.75	300,000	July 29, 2016	200,000
0.84	250,000	September 21, 2014	250,000
	6,790,000		5,483,333

(b) Share purchase warrants

The fair value of warrants has been estimated using the Black-Scholes option pricing model (see (a)). Although no warrants were granted during 2012 (2011 – nil), the remaining 11,674,999 warrants from the December 9, 2010 private placement, expiring December 9, 2012, were extended until March 31, 2012. The value of this modification, $1,190,850, was estimated using the Black-Scholes option pricing model with the following assumptions:

	2012	2011
Risk-free interest rate	1.19%	-
Expected life	0.31 years	-
Expected volatility	124%	-
Expected dividends	nil	-

12. Share capital (continued):

A summary of the Company's share purchase warrants at December 31, 2012 and 2011, and the changes for the years then ended, is presented below:

	2012			2011	
	Number of warrants		Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance, beginning of year	17,878,397	$	0.47	32,514,896	$0.39
Granted	-		-	-	-
Exercised	(1,243,651)		0.37	(14,636,499)	0.23
Expired	(4,959,747)		0.30	-	-
Balance, end of year	11,674,999	$	0.55	17,878,397	$ 0.47

During the year, the 4,959,747 warrants remaining from the June 18, 2010 private placement expired unexercised. This resulted in an increase to contributed surplus of $456,094, which is net of the related $82,073 income tax impact.

The weighted average share price on the date on which warrants were exercised during 2012 was $0.54 (2011: $0.83).

The following table summarizes information about the warrants outstanding and exercisable at December 31, 2012.

Exercise price per share	Expiry date	Number of exercisable warrants
$ 0.55	March 31, 2013	11,674,999
		11,674,999

13. Commitments:

In February 2012 the company entered into a five year operating lease agreement on its head office premises in Halifax which began October 2012 and expires November 2017. As of December 31, 2012 these commitments required total payments including estimated common expenses, as follows:

13. Commitments (continued):

Year	Commitments
Year ending December 31, 2013	111,824
Year ending December 31, 2014	111,824
Year ending December 31, 2015	111,824
Year ending December 31, 2016	111,824
Year ending December 31, 2017	93,186
	540,482

14. Subsequent events:

(a) Subsequent to year end the Company has filed a final short form prospectus for an offering of units of the Company. The Company has entered into an agency agreement with Byron Capital Markets Ltd. as Canadian agent, and Knight Capital Americas LLC, as United States agent, in respect of the offering. Under the terms of the agency agreement, the agents will offer, on a best effort basis, units for gross proceeds of up to a maximum of $5,000,000. Each unit is comprised of one common share in the capital of the Company, and one common share purchase warrant, at a price of $0.25 per unit. Each whole purchase warrant will entitle the holder to purchase one common share at a price of $0.35 for a period of 36 months following the closing of the offering.

The agents have been granted an option, exercisable at any time until 30 days following the closing of the offering, to purchase additional units equal to 15% of the number of units sold pursuant to the offering at the issue price of the units, to cover over-allotments, if any and for market stabilization purposes.

In consideration for the services to be rendered by the agents under the offering, the agents will receive a cash commission of 6% of the gross proceeds of the offering (including any units issued as a result of the exercise of the over-allotment option). The agents will also receive broker warrants to purchase an aggregate number of common shares equal to 6% of the number of units issued under the offering (including units issued upon exercise of the over-allotment option). Each broker warrant will entitle the holder thereof to acquire one common share at an exercise price of $0.25 for a period of 36 months following the completion of the offering.

(b) On March 31, 2013, a total of 11,674,999 warrants expired unexercised.